Summary Analysis of Private Student Loans

Purpose of Study
To help educate students on the types and possible outcomes of private student loans, hopefully giving them an advantage when/if they are faced with the decision of what type of loan to choose.

Background
- 1.4 million undergraduate students borrowed private student loans in the 2011-12 calendar year.
- In the 2014-15 calendar year, private student loan debt hit roughly $7.8 billion.
- Total U.S. Student Loan Debt is currently sitting near $1.48 trillion.
- Fixed Rate Loan - A loan that applies the same rate over the entire life of the loan.
- Variable Rate Loan - A loan with a rate that adjusts according to the behavior of an index at specified time intervals.

Methodology
- First I took the highest and lowest offered APR for both fixed and variable rate loans, to reflect borrowers with opposite extreme credentials.
- I then created an amortization table using those rates to find the interest and final payoff amount for each scenario.
- Finally, I compared the data to create an analysis of possible outcomes for both options.

Results
- Fixed Rate Loan: When looking into the fixed rate loan scenarios I found that the highest offered APR (worst case scenario) of 12.99% was still much lower than the 18% APR for variable rate loans. When comparing the high and low APR of fixed rate loans it gave a good idea of the window of possibilities that one could be presented with. The lowest offered APR of 5.24% on a $100,000 loan gave the borrower a total payoff amount of $144,000. The highest offered APR of 12.99% on the same $100,000 loan resulted in a total payoff amount of $227,000, a difference in total payoffs of $83,000.
- Variable Rate Loan: When looking at the variable rate loan scenarios I found that there was a much larger deviation of possible outcomes. Although I could not find a definite incremental percentage increase or decrease from lenders, I used a conservative 1% to represent the change in rate. For the highest offered APR of 18%, decreasing 1% per year for 5 years, on a $100,000 loan the student would have a total payoff amount of just over $277,000. With the lowest offered APR of 4.11%, increasing by 1% per year for 5 years, the student would have a total payoff amount of $148,000 on the same loan.

Conclusion
In conclusion, private student loans can be a very costly option. Variable rate loans could appear to be cheaper, but as shown in the study could rise over time. For those who are more sensitive to possible externalities, a fixed rate loan could be better suited. In the end, it all comes down to the borrower and their willingness to carry risk.